Media Release

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Avoid over-indebtedness and borrow wisely

As we start the year, unfortunately the festive season left some consumers in a desperate situation when it comes to finances. There are many reasons why consumers need to borrow money at this time of the year, says Nomsa Motshegare, CEO at the National Credit Regulator (NCR).

"Regardless of the reason for borrowing, before consumers sign credit agreements, they need to understand the cost of credit and the terms and conditions of different credit agreements," says Motshegare. The credit provider must give consumers a pre-agreement statement and quotation when seeking credit. These will outline the terms and conditions of the proposed agreement and all costs involved such as cost of credit, interest, service fees, initiation fees, credit insurance if there is any, deposit required if there is, number of instalments, date of first instalment, date of last instalment etc.

According to the National Credit Act (NCA), before credit providers extend credit to consumers, they are required to conduct an affordability assessment to assess the consumer's general understanding and appreciation of the risks and costs of the proposed credit; the rights and obligations of a consumer under the credit agreement; debt repayment history as a consumer under credit agreements and the consumer's existing financial means, prospects and obligations.

Consumers need to be truthful and honest when providing information at the point of application. This includes providing the correct amount for household expenses and not decreasing the amount in order to qualify for credit. By being truthful, consumers will be protected by the National Credit Act, but will lose the protection of the NCA if they give false information.

Consumers should enquire what interest rates they will be charged including all other charges that will be added before signing the credit agreement. For example, when taking out an unsecured credit which consists mainly of personal loans, the credit provider can charge maximum interest of up to 27.75%. "However, as a consumer you can negotiate the interest when you get the pre-agreement statement and quotation. You can use these to shop around for better deals. Consumers are reminded to only borrow from a registered credit provider", advises Motshegare

Tips for borrowing wisely:

- **Borrow as little money as possible -** Borrowing to fund your children's education or a home loan can be a good thing, but borrowing for consumables such as groceries, to pay off other debt or to fund luxuries such as holidays or designer clothing can condemn you to a lifetime of debt. Only borrow for what you really need. Plan the repayments before you apply for a credit card, clothing card, overdraft, personal loan or any form of credit. Also take into consideration the interest and other charges as well as how this will affect your ability to save. Avoid paying over too many months as it will cost you more in the end.

- **Signing** - Never sign a blank credit agreement as you will not have control over other information that can be added after you sign.
- **Card retention** – Never leave your identity document, bank card, SASSA card or PIN with the credit provider.
- **Cooling off period** – In terms of the NCA, a cooling off period only relates to credit agreements signed at the premises other than that of the credit provider. The cooling off period is valid for five business days. Often, credit agreements are signed at the credit provider's premises. So, don't sign until you are sure.
- **Credit insurance -** If there is, familiarise yourself with the terms of the insurance to avoid surprises when you most need the insurance. It is advisable to take out credit insurance.
- **Create a monthly budget and stick to it -** Work out how much income your family earns and what your total expenses are each month. Will you be able to pay for your new debt once you've covered all your expenses? You should also plan for unexpected costs such as if one of your family members is retrenched. Always keep receipts of your payments, as you might need these in the future.
- **Start saving consistently -** Put aside at least 15% of your income every month in a safe investment. Save for your retirement as well.
- **Pay your debts on time -** Paying late or not paying the full instalment will adversely affect your credit rating and possibly your ability to take out credit in the future. If you think you cannot meet your monthly instalments, contact your credit provider immediately and try to re-arrange payments. Do not wait until you skip payments.
- **Prioritise your home loan - You** don't want to lose your home.
- **Check your credit report regularly -** This way you'll be able to identify any errors and correct them. Under the NCA, a credit bureau must provide you with one free copy of your credit report each year from each of the registered credit bureaus. Additional copies come at a cost.

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